

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other				Local Unit Name Village of Spring Lake	County Ottawa
Fiscal Year End 6/30/06	Opinion Date 10/12/06		Date Audit Report Submitted to State 11/21/06		

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

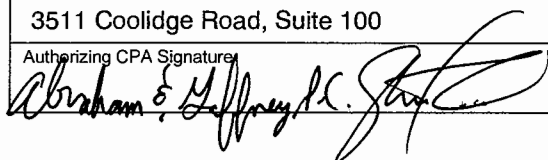
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input checked="" type="checkbox"/>	None		
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836		
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI	Zip 48823
Authorizing CPA Signature 		Printed Name Steven R. Kirinovic, CPA		License Number 1101022020

**Village of Spring Lake
Ottawa County, Michigan**

FINANCIAL STATEMENTS

June 30, 2006

Village of Spring Lake
Ottawa County, Michigan

June 30, 2006

VILLAGE COUNCIL AND ADMINISTRATION

Mr. Bill Filber	President
Mr. James Palma	President Pro Tem
Mr. Ryan Kelly	Council Member
Mr. Mark Miller	Council Member
Mr. Tom Fischer	Council Member
Mr. Scott VanStrate	Council Member
Ms. Linda Albonico	Council Member
Mr. Ryan Cotton	Village Manager
Ms. Maribeth Lawrence	Clerk/Treasurer

Village of Spring Lake

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ABRAHAM & GAFFNEY, P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Spring Lake
Spring Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of the Village of Spring Lake as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of the Village of Spring Lake as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Spring Lake's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 12, 2006



MANAGEMENT'S DISCUSSION AND ANALYSIS

1) Financial Highlights

- a) In all material regards, the Village of Spring Lake ended the fiscal year in sound financial position. All funds ended the year with positive fund balances. Total General Fund expenditures ended over budget by \$319,525 (mainly due to the accounting entries necessary to account for the recognition of disbursements to the TIFA related to redevelopment projects in the amount of \$317,672). As a result of recognizing the loan proceeds related to the above redevelopment projects of \$317,672, the Village's revenues and other financing sources also exceeded budget in the amount of \$342,754. Taking these two (2) issues into consideration, the total General Fund addition to fund balance was \$42,351, \$23,229 more than what was anticipated. All funds, except the Water Fund, ended the year with cash fund balances that met or exceeded the Village Council's minimum levels.
- b) Net assets remained revalued from the June 30, 2003 amounts to meet actual holdings and GASB-34 requirements and in most funds, assets increased during the year.
- c) Total expenses for governmental activities totaled \$2,237,844 up from \$2,005,686 for fiscal year 2005. These amounts properly exclude the Downtown Development and Tax Increment Finance Authorities for both years as required by the GASB. These Authorities are reflected as Component Units.
- d) The General Fund is healthy. The fund balance increased by \$42,351. Year-end fund balance for the General Fund totaled \$312,288. This fund balance equals 20% of expenditures and other financing uses. The Village's Fiscal Guidelines calls for 15% of cash balance. When compared to the cash balance of \$248,217 the Village's reserve is found to be 20%.

2) Overview of Financial Statements

a) Overall financial picture.

The financial statements provide two views of the Village's financial position. At the broadest level, also called the Government-wide statements, the statements summarize all Village funds into one statement using the full accrual method of accounting. This method of accounting is similar to private sector, for-profit accounting.

i) Statement of Net Assets

The statement of Net Assets provides information on assets, liabilities and the difference between assets and liabilities, or net assets. Over time, increases and decreases in net assets can serve as a barometer of financial health. **A trend of increasing net assets is viewed as a sign of improving condition.** The *Statement of Net Assets* is similar to a balance sheet in private sector accounting.

ii) Statement of Activities

The Statement of Activities explains the change in net assets through revenue and expense analysis. All changes in net assets are reported as the change occurs. This means the statement includes depreciation on the assets. The statement does not report any capital outlay. Capital outlay is capitalized on the Statement of Net Assets.

Village of Spring Lake, Michigan
Management Discussion and Analysis
June 30, 2006

b) Fund Focus

Traditional governmental accounting focused on individual governmental funds. These funds have not disappeared. As in the former financial model, a fund is defined as a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. Funds are used to ensure compliance with legal or regulatory compliance. Funds are classified as governmental funds, proprietary funds or fiduciary funds.

i) Governmental Funds

Governmental funds are essentially equal to governmental activities except that internal service funds are included in governmental activities and are not governmental funds. Governmental funds use a modified accrual basis of accounting and focus on near-term inflows and outflows of spendable resources and the balances of spendable resources. In the governmental fund statements, accounting for items such as capital outlay, depreciation and debt payments are different than in the government-wide statements. In governmental funds, capital outlay and debt principal are reported on the *Statement of Revenues, Expenditures and Changes in Fund Balance*. Depreciation is not recorded. The *Balance Sheet* for governmental funds does not include any capital assets or long-term debt.

(1) Major Funds

Under GASB Statement 34, the focus shifted from the type of governmental fund to a major funds emphasis. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. Greater detail is presented in Major Funds. For the Village of Spring Lake, the following funds meet this requirement:

- General Fund
- Major Street
- Village of Spring Lake/City of Ferrysburg Police Department
- Water Fund
- Sewer Fund

(2) Nonmajor Funds

In the basic financial statements, the remaining funds are considered nonmajor funds and are consolidated into one column. These are smaller, less active funds. Detailed information about nonmajor funds can be found after the Notes to the Financial Statements.

ii) Proprietary Funds

Proprietary funds use the full accrual method of accounting for both government-wide statements and fund level statements. There are two types of proprietary funds:

- Enterprise
- Internal Service

- (1) Enterprise funds** are used to report business like activities. In general, these funds charge a fee for goods or services provided. The fee is expected to recover the cost of providing the goods or services. The Village of Spring Lake uses enterprise funds for water distribution and wastewater collection.

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- (2) Internal service funds provide goods or services to other Village activities or functions. Internal service funds facilitate cost allocation of centralized services such as vehicle purchases and maintenance. The Village of Spring Lake has two internal service funds: the Central Equipment and the Police Equipment Fund.

iii) Component Units

The Village of Spring Lake's Annual Financial Report includes two (2) component units. Component units are separate legal entities for which the Village of Spring Lake has some level of financial accountability. The Village of Spring Lake's two (2) component units are the Downtown Development Authority and the Tax Increment Financing Authority. More information about this component unit can be found in the Notes to the financial statements and in the selected statements following the Notes.

c) Notes to the Financial Statements

Immediately after the Government-wide financial statements are the Notes to the Financial Statements. The Notes are an integral part of the financial statements. The Notes contain many additional disclosures about the financial health of the Village.

3) Financial Analysis

a) Net Assets

The Statement of Net Assets provides an overview of the Village's assets, liabilities, and net assets. As mentioned above, this can provide a good indicator of the Village's fiscal year health over time.

Below is a summarized version of the Statement of Net Assets for 2006 with comparative amounts for 2005, as required.

	Governmental Activities		Business-type Activities		Total Primary Government	
	Restated 2005	2006	Restated 2005	2006	Restated 2005	2006
Assets						
Current and other assets	\$ 1,312,966	\$ 1,721,934	\$ 137,308	\$ 113,341	\$ 1,450,274	\$ 1,835,275
Capital assets	<u>5,828,090</u>	<u>5,769,861</u>	<u>4,717,003</u>	<u>4,559,235</u>	<u>10,545,093</u>	<u>10,329,096</u>
Total assets	7,141,056	7,491,795	4,854,311	4,672,576	11,995,367	12,164,371
Liabilities						
Current liabilities	221,467	307,525	199,481	179,572	420,948	487,097
Noncurrent liabilities	<u>2,627,544</u>	<u>2,752,357</u>	<u>1,000,699</u>	<u>868,746</u>	<u>3,628,243</u>	<u>3,621,103</u>
Total liabilities	2,849,011	3,059,882	1,200,180	1,048,318	4,049,191	4,108,200
Net assets						
Invested in capital assets, net of related debt	3,116,822	3,149,009	3,589,151	3,550,444	6,705,973	6,699,453
Restricted	1,067,755	491,818	10,076	-	1,077,831	491,818
Unrestricted	<u>107,468</u>	<u>791,086</u>	<u>54,904</u>	<u>73,814</u>	<u>162,372</u>	<u>864,900</u>
Total net assets	<u>\$ 4,292,045</u>	<u>\$ 4,431,913</u>	<u>\$ 3,654,131</u>	<u>\$ 3,624,258</u>	<u>\$ 7,946,176</u>	<u>\$ 8,056,171</u>

Village of Spring Lake, Michigan
Management Discussion and Analysis
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The total net assets of the Village are \$8,056,171 up from \$7,946,176 last year. The Village has \$864,900 in unrestricted net assets at the end of the current year.

b) Changes in Net Assets

(i) Governmental Activities Highlights

The following table shows how activities effect changes in net assets during the fiscal year with comparative amounts from 2005.

	Governmental Activities		Business-type Activities		Total Primary Government	
	Restated 2005	2006	Restated 2005	2006	Restated 2005	2006
Revenues						
Program revenues:						
Charges for services	\$ 256,962	\$ 318,760	\$ 591,679	\$ 636,672	\$ 848,641	955,432
Operating & capital grants & contributions	867,456	666,544	-	-	867,456	666,544
Property taxes	975,518	1,021,511	-	-	975,518	1,021,511
State shared revenues	210,884	208,490	-	-	210,884	208,490
Investment earnings	18,803	64,619	3,703	4,545	22,506	69,164
Miscellaneous	-	13,665	-	3,030	-0-	16,695
Total revenues	2,329,623	2,293,589	595,382	644,247	2,925,005	2,937,836
Expenses						
General government	326,052	275,344	-	-	326,052	275,344
Public safety	873,307	982,584	-	-	873,307	982,584
Public works	412,972	550,515	-	-	412,972	550,515
Community and economic dev.	-	36,553	-	-	-0-	36,553
Recreation & cultural	299,324	263,798	-	-	299,324	263,798
Other	2,749	2,586	-	-	2,749	2,586
Interest and fiscal charges	91,282	126,464	-	-	91,282	126,464
Water	-	-	459,784	306,385	459,784	306,385
Sewer	-	-	262,967	283,612	262,967	283,612
Total expenses	2,005,686	2,237,844	722,751	589,997	2,728,437	2,827,841
Change in net assets before transfers	323,937	55,745	(127,369)	54,250	196,568	109,995
Net transfers	<u>78,583</u>	<u>84,123</u>	<u>(78,583)</u>	<u>(84,123)</u>	<u>-0-</u>	<u>-0-</u>
Change in net assets	402,520	139,868	(205,952)	(29,873)	196,568	109,995
Restated net assets - beginning of year	<u>3,889,525</u>	<u>4,292,045</u>	<u>3,860,083</u>	<u>3,654,131</u>	<u>7,749,608</u>	<u>7,946,176</u>
Ending net assets	<u>\$ 4,292,045</u>	<u>\$ 4,431,913</u>	<u>\$ 3,654,131</u>	<u>\$ 3,624,258</u>	<u>\$ 7,946,176</u>	<u>\$ 8,056,171</u>

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Total revenue from all sources totaled \$2,937,836 of which \$2,293,589 was from governmental activities and \$644,247 was from business-type activities. Total revenue from governmental activities is \$2,293,589, of which 44.54 % or \$1,021,511 is from property taxes. The millage rate decreased to 13.0619 out of the 20-mill charter limit.

(1) Expenses and expenditures changes

(a) Over cost

Using a full accrual basis of accounting, the Village of Spring Lake spent \$2,237,844 on governmental activities. From this perspective, the Village depreciates capital assets. The Village spent \$982,584 on public safety or 44% of the budget. (The City of Ferrysburg is a partner in the Village of Spring Lake/City of Ferrysburg Police Department and contributed \$400,840 towards its operation.) Public works activities totaled \$550,515 or 25% of the budget and culture and recreation expenses totaled \$263,798 or 12% of the budget.

(b) Operating transfers

Significant transfers of funds between governmental funds occurred during the year. Transfers out of the General fund totaled \$ 463,008 the greatest portion of these being transferred into the Police Department Special Revenue Fund with the total of \$452,008. These transfers occur on an annual basis and for clarity of reporting are noted here.

(ii) Business-type Activities - Highlights

Business-type activities show a decrease in net assets of \$29,873 with total revenues of \$644,247. The largest source of revenue was from charges for services, which represent 99% of revenues for business-type activities. Charges for services of proprietary funds are further detailed as follows:

- Sewer \$254,622
- Water \$382,050

(1) Village Water (Distribution)

- a. Note that this fund handles only the distribution of water to the Village of Spring Lake customers and purchases its treated water from the Northwest Ottawa Water Systems (NOWS) Fund, a joint venture of Northwest Ottawa communities.
- b. The fund ended the year with a negative \$46,025 in unrestricted assets. The fund balance dropped each of the four past years due to no longer subsidizing the fund with taxes and from increased debt and operating costs for capital improvements made by NOWS. In fiscal year 2007, rate increases and system equity charges for new users were instituted to address the shortfalls. Major infrastructure projects include helping to pay for rehabilitation of the NOWS plant and Spring Lake transmission main upgrades.

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(2) Village Sewer (Collection)

The Village Sewer Fund has a sufficient cash position at \$125,487; with operating revenues of \$255,983 the fund had a net decrease of \$30,084 in net assets. The fund has sufficient reserves to meet its cash flow and capital needs for the immediate future. Nevertheless, an inflationary rate increase and a sewer system equity charge were instituted in fiscal year 2007 to keep the fund healthy.

4) Financial Analysis of Individual Governmental Funds

a) General Fund

The General Fund had revenues and other financing sources of \$1,608,664 and \$1,566,313 in expenditures and other financing sources (uses). Net transfers to other funds were \$424,508, the largest going to the Village of Spring Lake/City of Ferrysburg Police Department Special Revenue Fund, pursuant to the Joint Police Commission's recommendation and the direction of the Spring Lake Village Council. The fund balance increased by \$42,351 primarily due to less expenditures than budgeted for Harbor Transit.

b) Major Street Fund

The Major Street Fund had revenues of \$242,423, slightly more (\$14,759) than was budgeted and \$189,012 in expenditures and other financing uses which was slightly less (\$15,360) than budgeted, resulting in an increase to fund balance of \$53,411 to end the year at \$206,417 in fund balance. This fund is used to fund 12 miles of streets classified as "Major" in the Village, according to the State of Michigan criteria. As such, the Village receives state shared revenue from the State of Michigan gas tax to help cover maintenance and capital costs. A total of \$127,063 of this state shared revenue was received in fiscal year 06. If these revenues exceed the Village's incurred expenses, a portion of these funds may be transferred to the Local Street Fund to cover their operation and maintenance costs. A total of \$45,000 was transferred out to the Local Street Fund in fiscal year 06. This is similar to transfers in the past years. A duly adopted resolution of the Village Council making this transfer was forwarded to MDOT as required.

Further, the Village is engaged in a multi-year effort to rehabilitate these Major Streets. Rehabilitation is defined as sub-base repair, curb repair, driveway approaches, sidewalk repair and new driving surfaces.

The fund balance was budgeted to accrue in fiscal year 06 in anticipation of rehabilitating portions of Grandview, Jackson and North Lake Street in fiscal year 07. An eighty percent state and federal grant was secured to assist with this project. The State of Michigan Jobs Today program is providing a portion of the remaining share, as is the Major Street Fund.

c) Police Department Fund

The Police Department Fund had a decrease in fund balance of \$39,058 in fiscal year 06 bringing the total fund balance down to \$103,008. The Police Department fund had expenditures of \$902,426, slightly more (\$3,009) than budgeted and revenues and other financing sources of \$863,368, slightly more (\$4,830) than budgeted for the fiscal year. The Police Department jointly serves the City of Ferrysburg and the Village of Spring Lake with each community contributing to the fund. In fiscal year 06, The Village contributed \$452,008 and the City of Ferrysburg's contribution was \$400,840.

Village of Spring Lake, Michigan
Management Discussion and Analysis
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5) Capital Assets and Debt Administration

a) Capital Assets

i) Summary of capital assets

The Village of Spring Lake has \$5,769,861 invested in capital assets net of depreciation under governmental activities and \$4,559,235 in business-type activities. The major investments are in property, buildings and improvements, infrastructure systems within the Village, plus the sewer and water systems.

Capital assets include all purchases of assets that exceed \$5,000 and have an expected useful life greater than three years. Capital assets include: land, land improvements, streets, sidewalks, parking lots, buildings, equipment and utility systems such as water and sewer lines, sewer lift stations and water meters. The Village uses straight-line depreciation for all depreciable assets.

Some of the major capital purchases during the year included:

- Grand River Boardwalk at Marina Bay - \$40,000
- Municipal Service Garage Expansion - \$36,926
- Entryway sign - \$8,940
- Land - \$21,000

ii) Discussion of future plans

Annually, the Village Council considers and publishes a 6-year Capital Improvement Plan. The Plan lists all major capital items that the Village Council, various Village Boards and staff envision will be needed over the next three years. Listed major projects for the next two years include:

- Completion of Municipal Garage Expansion
- Central Park Improvements
- Women's Christian Temperance Union Fountain Restoration
- Identification Signage for Parks

6) Debt

a) Summary of debt

The Village of Spring Lake had \$2,945,886, up from \$2,751,432 of debt outstanding for governmental activities in FY 05 mainly due to redevelopment loans for the Lake Pointe and Mill Point projects. The Village had \$1,000,699 in debt outstanding for business-type activities as of June 30, 2006, down from \$1,127,852 in FY 05.

b) Anticipated debt

The Village of Spring Lake anticipates the long-term borrowing to finance rehabilitation of the new water plant in FY 09.

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Note F of the notes to the financial statements offers more detailed information on debt and other obligations.

7) Economic Forecast

a) Main Sources of Revenue

The Village of Spring Lake has three main sources of revenue. These include property taxes, utility charges, and state shared revenue. The economic forecast for the community is dependent on these three revenues, as discussed below.

i) Tax Base

The annual change in taxable value and state equalized value of the Village is closely tracked through the Spring Lake Township Assessing Division. The following table shows property values for the recent years as well as the property valuation that will be used in the fiscal year 2006 property tax calculations. State Equalized Value (SEV) is the Assessor's estimate of 50% of market value (also called "true cash" value.) Property taxes are calculated on taxable value, not state equalized value. Taxable value is tracked in the Village's budget and is reproduced below.

Pursuant to 1994's Proposal A and related legislation, annual taxable value growth is capped, by state constitution, to 5% or the rate of inflation whichever is less. In the year when property sells, the taxable value becomes uncapped and equals to SEV.

In future years, significant improvements to taxable value will include the Lake Pointe condominiums (34); the remaining East Village Redevelopment (\$4,800,000 of new commercial development and 43 condominiums); the Rite Aid Relocation; the Alden Place Victorian Village Property Redevelopment (29 condominiums) and the Garrison Dental Light Assembly Building. Some reductions in taxable value have occurred with various business and industrial changes during the fiscal year herein reported: former Rite Aid store vacancy; demolition of former electronics garage at 226 ½ West Savidge; and the demolition of the former Graflex, Fletemeyer and Miller Smith properties.

Fiscal Year	Real and Personal	TIFA Capture	Total	Percentage
2001	63,245,498	13,044,526	76,290,024	--
2002	66,576,446	14,950,729	81,527,175	6.9%
2003	69,050,368	13,436,154	82,486,522	1.2%
2004	71,575,297	14,382,156	85,957,453	4.2%
2005	79,253,537	14,441,540	93,666,077	9.0%
2006	84,747,681	15,672,472	100,420,153	7.2%

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June 30, 2006

ii) State Shared Revenue

State shared revenue is the second largest source of revenue for the General Fund. It represents 16 % of General Fund revenue. State shared revenue is made of two components and based on the State sales tax rate of 6 %. The constitutional component is based on the former 4% sales tax. This portion cannot be adjusted by the legislature. This total was \$172,552 in fiscal year 2006. The statutory component is based on the additional 2 % added to the state sales tax and can be adjusted by the state legislature. This total was \$35,938 in fiscal year 2006. In both components, the overall distribution is dependent on the collection of the State sales taxes. When the economy and sales diminish, the revenue stream is reduced. When the economy and sales improve, revenue increases. Therefore, the Village of Spring Lake's General Fund is partially dependent on the overall State of Michigan economy.

In preparing the annual budgets, Village Administration uses the Michigan Department of Treasury's estimates as published on their web site. The current fund balance will enable the Village to weather any likely reductions in Fiscal Year 2007 state shared revenue, however, conservative estimates for the future are needed. The statutory share of \$35,938 is at significant risk in future state budgets.

iii) Utility and Other Major Revenue

Utility charges will likely increase, especially for water debt. Increased water debt will drive the debt service charge up as the Nows facilities are upgraded in the next few years, including the sharing of their water transmission main across the Grand River harbor.

Tanglefoot Park hosts over thirty recreational vehicles and twenty boat slips. Together these activities produced \$85,916 in FY 06. This represents the revenue equivalent of one mill and is 6.7% of total revenue. Cable TV franchise fees resulted in \$30,559 of revenue in FY 06. This represents almost one half mills of revenue and 2.4% of total revenue. Changes in the cable industry associated with wireless technology could reduce this amount in the near future.

8) Contacting the Village's Financial Management Staff

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives.

If you have questions about this report or need additional financial information, contact us at 102 W. Savidge, Spring Lake, MI 49456, or call us at 616 842-1393 or email us at the addresses noted below:

Ryan Cotton
Village Manager
ryan@springlakevillage.org

Maribeth Lawrence
Village Clerk/Treasurer
maribeth@springlakevillage.org

BASIC FINANCIAL STATEMENTS

Village of Spring Lake

STATEMENT OF NET ASSETS

June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,271,768	\$ 105,044	\$ 1,376,812	\$ 2,018,151
Receivables	21,310	1,672	22,982	5,822
Due from other governmental units	108,902	-	108,902	3,820
Prepays	2,282	-	2,282	-
Total current assets	1,404,262	106,716	1,510,978	2,027,793
Noncurrent assets				
Due from other governmental units	317,672	-	317,672	-
Cash and cash equivalents - restricted	-	6,625	6,625	-
Capital assets not being depreciated	2,027,671	8,092	2,035,763	-
Capital assets, net of accumulated depreciation	3,742,190	4,551,143	8,293,333	-
Total noncurrent assets	6,087,533	4,565,860	10,653,393	-0-
TOTAL ASSETS	7,491,795	4,672,576	12,164,371	2,027,793
LIABILITIES				
Current liabilities				
Accounts payable	59,684	22,902	82,586	81,879
Accrued liabilities	20,492	1,750	22,242	1,276,115
Accrued interest payable	33,120	22,967	56,087	-
Deferred revenue	700	-	700	-
Current portion of compensated absences	5,521	-	5,521	-
Current portion of long-term debt	188,008	131,953	319,961	-
Total current liabilities	307,525	179,572	487,097	1,357,994
Noncurrent liabilities				
Due to other governmental units	-	-	-0-	317,672
Noncurrent portion of compensated absences	1,841	-	1,841	-
Noncurrent portion of long-term debt	2,750,516	868,746	3,619,262	-
Total noncurrent liabilities	2,752,357	868,746	3,621,103	317,672
TOTAL LIABILITIES	3,059,882	1,048,318	4,108,200	1,675,666
NET ASSETS				
Invested in capital assets, net of related debt	3,149,009	3,550,444	6,699,453	-
Restricted for:				
Debt service	92,542	-	92,542	-
Public safety	103,008	-	103,008	-
Streets	263,148	-	263,148	-
Unrestricted	824,206	73,814	898,020	352,127
TOTAL NET ASSETS	\$ 4,431,913	\$ 3,624,258	\$ 8,056,171	\$ 352,127

See accompanying notes to financial statements.

Village of Spring Lake

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Component Units
					Governmental Activities	Business-type Activities		
Primary government								
Governmental activities								
General government	\$ 275,344	\$ 76,258	\$ 62,000	\$ -	\$ (137,086)	\$ -	\$ (137,086)	\$ -
Public safety	982,584	97,097	405,589	-	(479,898)	-	(479,898)	-
Public works	550,515	24,801	186,705	-	(339,009)	-	(339,009)	-
Community and economic development	36,553	2,530	-	-	(34,023)	-	(34,023)	-
Recreation and cultural	263,798	116,124	8,500	3,750	(135,424)	-	(135,424)	-
Other	2,586	1,950	-	-	(636)	-	(636)	-
Interest on long-term debt	126,464	-	-	-	(126,464)	-	(126,464)	-
Total governmental activities	2,237,844	318,760	662,794	3,750	(1,252,540)	-0-	(1,252,540)	-0-
Business-type activities								
Sewer	283,612	254,622	-	-	-	(28,990)	(28,990)	-
Water	306,385	382,050	-	-	-	75,665	75,665	-
Total business-type activities	589,997	636,672	-0-	-0-	-0-	46,675	46,675	-0-
Total primary government	<u>\$ 2,827,841</u>	<u>\$ 955,432</u>	<u>\$ 662,794</u>	<u>\$ 3,750</u>	(1,252,540)	46,675	(1,205,865)	-0-
Component units								
Downtown Development Authority	\$ 870	\$ -	\$ -	\$ -	-	-	-0-	(870)
Tax Increment Finance Authority	1,662,744	-	547,238	-	-	-	-0-	(1,115,506)
Total component units	<u>\$ 1,663,614</u>	<u>\$ -0-</u>	<u>\$ 547,238</u>	<u>\$ -0-</u>	-0-	-0-	-0-	(1,116,376)
General revenues								
Property taxes					1,021,511	-	1,021,511	964,007
State shared revenues					208,490	-	208,490	-
Investment earnings					64,619	4,545	69,164	75,773
Miscellaneous					13,665	3,030	16,695	-
Transfers					84,123	(84,123)	-0-	-
Total general revenues and transfers					1,392,408	(76,548)	1,315,860	1,039,780
Change in net assets					139,868	(29,873)	109,995	(76,596)
Restated net assets, beginning of the year					4,292,045	3,654,131	7,946,176	428,723
Net assets, end of the year					<u>\$ 4,431,913</u>	<u>\$ 3,624,258</u>	<u>\$ 8,056,171</u>	<u>\$ 352,127</u>

See accompanying notes to financial statements.

Village of Spring Lake
GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2006

	General	Major Street
ASSETS		
Cash and cash equivalents	\$ 248,217	\$ 197,814
Accounts receivable	18,405	571
Due from other governmental units		
Federal/State	68,023	32,233
Local	319,117	-
Prepays	1,141	-
TOTAL ASSETS	\$ 654,903	\$ 230,618
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 16,656	\$ 23,574
Accrued liabilities	8,287	627
Deferred revenue	317,672	-
TOTAL LIABILITIES	342,615	24,201
FUND BALANCES		
Reserved for		
Prepays	1,141	-
Debt service	-	-
Unreserved		
Undesignated, reported in		
General fund	311,147	-
Special revenue funds	-	206,417
TOTAL FUND BALANCES	312,288	206,417
TOTAL LIABILITIES AND FUND BALANCES	\$ 654,903	\$ 230,618

See accompanying notes to financial statements.

<u>Police Department</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 113,773 328	\$ 411,017 1,138	\$ 970,821 20,442
-	7,201	107,457
-	-	319,117
1,141	-	2,282
<u>\$ 115,242</u>	<u>\$ 419,356</u>	<u>\$ 1,420,119</u>
\$ 1,566 10,668 -	\$ 15,235 735 700	\$ 57,031 20,317 318,372
12,234	16,670	395,720
1,141 -	- 125,662	2,282 125,662
-	-	311,147
101,867	277,024	585,308
103,008	402,686	1,024,399
<u>\$ 115,242</u>	<u>\$ 419,356</u>	<u>\$ 1,420,119</u>

Village of Spring Lake

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance - governmental funds **\$ 1,024,399**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 12,168,960	
Accumulated depreciation is	<u>(6,399,099)</u>	
Capital assets, net		5,769,861

Internal Service Funds are used by management to charge the costs
of certain activities to individual funds. The assets and liabilities
of the Internal Service Funds are included in the governmental activities
in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	555,872	
Net capital assets of Internal Service Funds included in total capital assets above	<u>(256,885)</u>	
		298,987

Certain long-term assets are not available to pay for current period expenditures and are therefore deferred in the funds		317,672
--	--	---------

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Direct Village obligations	2,938,524	
Accrued interest payable	33,120	
Compensated absences	<u>7,362</u>	
		<u>(2,979,006)</u>

Net assets of governmental activities		<u>\$ 4,431,913</u>
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See accompanying notes to financial statements.

Village of Spring Lake

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	General	Major Street
REVENUES		
Taxes	\$ 805,522	\$ 75,769
Licenses and permits	3,757	-
Intergovernmental	239,240	159,346
Charges for services	58,692	-
Fines and forfeits	23,223	-
Interest and rents	99,135	7,308
Other	22,923	-
TOTAL REVENUES	1,252,492	242,423
EXPENDITURES		
Current		
General government	293,197	-
Public safety	13,146	-
Public works	216,117	115,780
Community and economic development	354,225	-
Recreation and cultural	224,034	-
Other	2,586	-
Debt service	-	-
Capital outlay	-	20,261
TOTAL EXPENDITURES	1,103,305	136,041
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	149,187	106,382
OTHER FINANCING SOURCES (USES)		
Loan proceeds	317,672	-
Transfers in	38,500	-
Transfers out	(463,008)	(52,971)
TOTAL OTHER FINANCING SOURCES (USES)	(106,836)	(52,971)
NET CHANGE IN FUND BALANCES	42,351	53,411
Fund balances, beginning of year	269,937	153,006
Fund balances, end of year	\$ 312,288	\$ 206,417

See accompanying notes to financial statements.

Police Department	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 140,220	\$ 1,021,511
-	94,089	97,846
405,589	95,960	900,135
-	-	58,692
-	-	23,223
4,071	44,150	154,664
1,700	12,895	37,518
411,360	387,314	2,293,589
-	-	293,197
902,426	50,736	966,308
-	185,012	516,909
-	-	354,225
-	1,409	225,443
-	-	2,586
-	248,350	248,350
-	36,675	56,936
902,426	522,182	2,663,954
(491,066)	(134,868)	(370,365)
-	-	317,672
452,008	166,433	656,941
-	(56,839)	(572,818)
452,008	109,594	401,795
(39,058)	(25,274)	31,430
142,066	427,960	992,969
<u>\$ 103,008</u>	<u>\$ 402,686</u>	<u>\$ 1,024,399</u>

Village of Spring Lake

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 31,430

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 186,087	
Depreciation expense	<u>(244,316)</u>	
Excess of capital outlay under depreciation expense		(58,229)

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Increase in net assets of Internal Service Funds	31,533	
Capital outlay of Internal Service Funds included in the total above	(79,221)	
Depreciation expense of Internal Service Funds included in the total above	<u>93,139</u>	
		45,451

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	123,888	
Loan proceeds	<u>(317,672)</u>	
		(193,784)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in due from other governmental units	317,672	
(Increase) in accrued interest payable	(2,002)	
(Increase) in accrued compensated absences	<u>(670)</u>	
		<u>315,000</u>

Change in net assets of governmental activities \$ 139,868

See accompanying notes to financial statements.

Village of Spring Lake
Proprietary Funds
STATEMENT OF NET ASSETS
June 30, 2006

	<u>Business-type Activities</u>	
	<u>Sewer Fund</u>	<u>Water Fund</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 125,487	\$ (20,443)
Accounts receivable	1,501	171
Total current assets	126,988	(20,272)
Noncurrent assets		
Restricted cash and cash equivalents	-	6,625
Capital assets not being depreciated	-	8,092
Capital assets, net of accumulated depreciation	861,960	3,689,183
Total noncurrent assets	861,960	3,703,900
TOTAL ASSETS	988,948	3,683,628
LIABILITIES		
Current liabilities		
Accounts payable	6,345	16,557
Accrued liabilities	804	946
Accrued interest payable	-	22,967
Current portion of long-term debt	-	131,953
Total current liabilities	7,149	172,423
Noncurrent liabilities		
Noncurrent portion of long-term debt	-	868,746
TOTAL LIABILITIES	7,149	1,041,169
NET ASSETS		
Invested in capital assets, net of related debt	861,960	2,688,484
Unrestricted	119,839	(46,025)
TOTAL NET ASSETS	\$ 981,799	\$ 2,642,459

See accompanying notes to financial statements.

<u>Total</u>	<u>Governmental Activities Internal Service Funds</u>
\$ 105,044	\$ 300,947
1,672	868
106,716	301,815
6,625	-
8,092	-
4,551,143	256,885
4,565,860	256,885
4,672,576	558,700
22,902	2,653
1,750	175
22,967	-
131,953	-
179,572	2,828
868,746	-
1,048,318	2,828
3,550,444	256,885
73,814	298,987
\$ 3,624,258	\$ 555,872

Village of Spring Lake

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2006

	Business-type Activities	
	Sewer Fund	Water Fund
OPERATING REVENUES		
Charges for services	\$ 254,622	\$ 382,050
Other	1,361	1,669
TOTAL OPERATING REVENUES	255,983	383,719
OPERATING EXPENSES		
Salaries and wages	46,637	52,202
Benefits	11,888	13,461
Supplies	7,610	37,056
Contracted services	108,379	59,947
Utilities	2,909	-
Equipment rental	30,595	-
Repairs and maintenance	26,677	-
Insurance	8,014	1,550
Depreciation	40,242	120,978
Other	661	4,609
TOTAL OPERATING EXPENSES	283,612	289,803
OPERATING INCOME (LOSS)	(27,629)	93,916
NONOPERATING REVENUES (EXPENSES)		
Interest earned	4,545	-
Interest and fiscal charges	-	(16,582)
TOTAL NONOPERATING REVENUES	4,545	(16,582)
INCOME (LOSS) BEFORE TRANSFERS	(23,084)	77,334
TRANSFERS OUT	(7,000)	(77,123)
CHANGE IN NET ASSETS	(30,084)	211
Net assets, beginning of year	1,011,883	2,642,248
Net assets, end of year	\$ 981,799	\$ 2,642,459

See accompanying notes to financial statements.

Total	Governmental Activities	
	Internal Service Funds	
\$ 636,672	\$	233,965
3,030		4,837
639,702		238,802
98,839		9,377
25,349		1,399
44,666		33,582
168,326		1,302
2,909		-
30,595		-
26,677		36,698
9,564		15,997
161,220		93,139
5,270		26,784
573,415		218,278
66,287		20,524
4,545		11,009
(16,582)		-
(12,037)		11,009
54,250		31,533
(84,123)		-
(29,873)		31,533
3,654,131		524,339
<u>\$ 3,624,258</u>	<u>\$</u>	<u>555,872</u>

Village of Spring Lake

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

	Business-Type Activities	
	Sewer Fund	Water Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from interfund services	\$ -	\$ -
Cash receipts from customers	272,317	386,385
Cash received from others	1,361	1,669
Cash paid to employees and benefits	(46,649)	(52,087)
Cash paid to employee benefits	(11,888)	(13,461)
Cash paid to vendors	(190,285)	(122,534)
NET CASH PROVIDED BY OPERATING ACTIVITIES	24,856	199,972
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out	(7,000)	(77,123)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital purchases	-	(3,452)
Principal paid on bonds	-	(127,153)
Interest and fiscal charges paid	-	(16,582)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	-0-	(147,187)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	4,545	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	22,401	(24,338)
Cash and cash equivalents, beginning of year	103,086	10,520
Cash and cash equivalents, end of year	<u>\$ 125,487</u>	<u>\$ (13,818)</u>

	Governmental Activities
	Internal Service Funds
<u>Total</u>	
\$ -0-	233,550
658,702	-
3,030	4,837
(98,736)	(9,341)
(25,349)	(1,399)
<u>(312,819)</u>	<u>(115,321)</u>
224,828	112,326
(84,123)	-
(3,452)	(79,221)
(127,153)	-
<u>(16,582)</u>	<u>-</u>
(147,187)	(79,221)
<u>4,545</u>	<u>11,009</u>
(1,937)	44,114
<u>113,606</u>	<u>256,833</u>
<u>\$ 111,669</u>	<u>\$ 300,947</u>

Village of Spring Lake

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2006

	Business-type Activities	
	Sewer Fund	Water Fund
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ (27,629)	\$ 93,916
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	40,242	120,978
Decrease in receivables	17,695	4,335
(Decrease) in accounts payable	(5,440)	(16,985)
(Decrease) in accrued interest payable	-	(2,387)
Increase (decrease) in accrued liabilities	(12)	115
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 24,856</u>	<u>\$ 199,972</u>

See accompanying notes to financial statements.

<u>Total</u>	<u>Governmental Activities</u>	
	<u>Internal Service Funds</u>	
\$ 66,287	\$	20,524
161,220		93,139
22,030		(415)
(22,425)		(958)
(2,387)		-
103		36
<u>\$ 224,828</u>	<u>\$</u>	<u>112,326</u>

Village of Spring Lake

Component Unit Funds

COMBINING STATEMENT OF NET ASSETS

June 30, 2006

	Downtown Development Authority	Tax Increment Finance Authority	Total Component Units
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,871	\$ 2,013,280	\$ 2,018,151
Accounts receivable	14	5,808	5,822
Due from other governmental units	-	3,820	3,820
TOTAL ASSETS	4,885	2,022,908	2,027,793
LIABILITIES			
Current liabilities			
Accounts payable	104	81,775	81,879
Due to other governmental units	-	1,276,115	1,276,115
Total current liabilities	104	1,357,890	1,357,994
Noncurrent liabilities			
Due to other governmental units	-	317,672	317,672
TOTAL LIABILITIES	104	1,675,562	1,675,666
NET ASSETS			
Unrestricted	<u>\$ 4,781</u>	<u>\$ 347,346</u>	<u>\$ 352,127</u>

See accompanying notes to financial statements.

Village of Spring Lake
Component Unit Funds
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets
Governmental activities			
Downtown Development Authority	\$ 870	\$ -	\$ (870)
Tax Increment Finance Authority	<u>1,662,744</u>	<u>547,238</u>	<u>(1,115,506)</u>
TOTALS	<u>\$ 1,663,614</u>	<u>\$ 547,238</u>	<u>(1,116,376)</u>
General revenues			
Property taxes			964,007
Investment earnings			<u>75,773</u>
Total general revenues			<u>1,039,780</u>
Change in net assets			(76,596)
Net assets, beginning of year			<u>428,723</u>
Net assets, end of year			<u>\$ 352,127</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village operates under an elected Village Council, which consists of the President and six (6) council members, with daily activities operated by the Village Manager, and Clerk/Treasurer. The Village provides services to its more than 2,500 residents in many areas including general government, law enforcement, highways and streets, and utility services.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Village of Spring Lake (primary government), and its component units, entities for which the government is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Village.

2. Discretely Presented Component Units

The Downtown Development Authority and the Tax Increment Finance Authority (component units) are reported in a separate column to emphasize that, while legally separate, the Village of Spring Lake remains financially accountable for these entities or the nature and significance of the relationship between these entities and the Village of Spring Lake is such that exclusion of these entities would render the financial statements misleading or incomplete.

The governing bodies of the Downtown Development Authority (DDA) and the Tax Increment Finance Authority (TIFA) are appointed by the Village Council, the budgets are subject to the approval of the Village Council, the Village temporarily relinquishes part of its tax base to the entities (tax increment revenues), and the Village has pledged its full faith and credit toward payment of the entities' debt.

3. Joint Ventures

The Village is a member of the Grand Haven - Spring Lake Sewer Authority (the Authority). The Village can appoint two (2) members to the joint venture's governing board, which then approves the annual budget. In the current year, the Village paid \$70,092 to the Authority for sewage treatment. The purpose of the Grand Haven - Spring Lake Sewer Authority is to acquire, own, improve, enlarge, extend, and operate a sewage disposal system. The Authority is governed by a Board of Trustees containing seven members. The participating communities (Cities of Grand Haven and Ferrysburg, Townships of Spring Lake and Grand Haven, Village of Spring Lake, and County of Ottawa) pay a set rate to the Authority to process waste. The Village is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements can be obtained at Grand Haven City Hall (519 Washington Street).

The Village is also a member of the Northwest Ottawa Water Treatment Plant (NOWS). The Village appoints one (1) member to the joint venture's governing board, which then approves the annual budget. In the current year, the Village paid \$120,767 to the plant to purchase water. The purpose of NOWS is to acquire, construct, finance, operate, and maintain a water production facility. The plant is governed by an administrative committee composed of one representative from each of the participating communities (Cities of Grand Haven and Ferrysburg, Townships of Grand Haven and Spring Lake, Village of Spring Lake, and County of Ottawa). These participating communities pay for water at a rate that is estimated to cover operation, maintenance, replacement, and debt service. The Village is unaware of any circumstances that would cause additional benefit or burden to participating governments in the near future. Complete financial statements can be obtained at Grand Haven City Hall (519 Washington Street).

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Police Department Fund is used to account for the financial resources that are used to operate the Spring Lake/Ferrysburg police department.
- d. The Water Fund is used to account for the operations required to provide water services to the Village residents, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- e. The Sewer Fund is used to account for the operations required to provide sewer services to Village residents, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

5. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Measurement Focus - continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and agency funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to February, the Village Manager and the Village Council develop an initial schedule of goals and objectives for the next year.
- b. During February, the various department heads develop spending plans which are based upon anticipated needs. These plans are then modified for the Manager's projections and are consolidated into a preliminary budget plan.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Budgets and Budgetary Accounting - continued

- c. During April, the plan is subjected to revision by the Council as considered necessary and is then formalized as a preliminary budget resolution.
- d. Prior to the end of June, a public hearing is held and the resolution is adopted.
- e. The budget is integrated with the accounting system and is used as a management control device during the year. The Village Manager is authorized to transfer budgeted amounts between accounts within the same department of any fund. Transfers between departments and funds must be approved by the Village Council.
- f. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Unexpended appropriations lapse at year-end.
- g. Budgeted amounts are as originally adopted or as amended by the Village Council during the fiscal year. Individual amendments were not material in relation to the original appropriations.

8. Cash and Cash Equivalents

The Village pools cash resources of various funds in order to facilitate the management of cash. Cash and cash equivalents applicable to a particular fund are readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in pooled investment accounts.

9. Receivables and Due From Other Governmental Units

Receivables consist of amounts due from various individuals and businesses related to charges for services, amounts owed to the Village from special assessments, and taxes levied that have not been collected. Amounts due from governmental units consist of amounts due for various programs and amounts owed from the component unit (TIFA) related to the redevelopment loans.

10. Restricted Assets

Certain revenues and resources in the proprietary fund types are classified as restricted assets on the balance sheet because their use is limited. The restricted assets of the Village reported in the Water Fund represent accumulated funds required to be used for the Northwest Ottawa Water Supply System construction and is held in the custody of the Ottawa County Road Commission.

11. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS

Capital assets include land, buildings, equipment, vehicles, mains and infrastructure and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and business-type columns. Capital assets are those with an initial cost of \$5,000 or more and an estimated useful life of more than three years. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

Village of Spring Lake
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Capital Assets - continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	7-20 years
Building improvements	50 years
Machinery and equipment	5 - 30 years
Vehicles	3 years
Infrastructure	20 years
Mains	50 years

12. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

13. Accrued Compensated Absences

Substantially all Village employees are granted vacation hours up to a maximum of 200 hours at July 1 based on years of service. Employees are permitted to carry up to 40 hours of unused vacation time into the next fiscal year upon approval of the Village Manager. In the event of termination, an employee is paid for accumulated vacation hours up to the maximum.

Substantially all Village employees are allowed to accrue sick hours up to a maximum of 700 hours. The Village will pay out any excess sick hours at a rate of 40% of the employee's current rate of pay on or around January 1 every year and therefore not paid to an employee upon termination.

At retirement, Village employees receive 2% for every year of employment of their accumulated vacation and sick hours.

The cost of the accumulated vacation payable, including related payroll taxes, is recorded entirely in the government-wide financial statements.

14. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the government-wide financial statements.

15. Deferred Revenue

Deferred revenue recorded in the General Fund consists of amounts related to the due from other governmental units receivable that will be collected in future periods. This amount is not deferred in the government-wide financial statements.

Village of Spring Lake

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

16. Property Tax

The Village of Spring Lake bills and collects its own property taxes and also taxes for other governmental units. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph:

Property taxes are levied by the Village of Spring Lake on July 1 and December 1 and are payable without penalty through September 30 and February 14, respectively. The July 1 levy is composed of the Village's millage. All real property taxes not paid to the Village by March 1 are turned over to the Ottawa County Treasurer for collection. The Ottawa County Treasurer remits pay-off payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes receivable are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted by ordinance to levy taxes up to 20.0000 mills (\$20 per \$1,000 of taxable valuation) for general governmental services. For the year ended June 30, 2006, the Village levied 10.3839 mills per \$1,000 of taxable valuation for general governmental services, 1.6780 mills for debt, and 1.000 mills for streets. The total taxable value for the 2005 levy for the property within the Village was \$91,140,277, less a TIF captured amount of \$14,412,540.

17. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers.

The Internal Service Funds (Central Equipment and Police Equipment) records charges for services provided to various Village departments and funds as operating revenue. All Village funds record these payments as operating expenditures/expenses.

18. Comparative Data

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

The Village deposits consist of a common checking account and various savings accounts, checking accounts, and pooled investment accounts, maintained by individual funds and are reported as cash and cash equivalents and investments on the basic financial statements.

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

Village of Spring Lake

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State of the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers' acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration (NCUA) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of June 30, 2006, the carrying amounts of the Village's deposits were \$900,454 and the bank balance was \$1,020,650, of which \$216,404 was covered by federal depository insurance. The balance of \$804,246 was uninsured and uncollateralized.

Investments

As of June 30, 2006, the carrying amount and market values for each investment are as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
Chase Bank - Government Operating MM Fund	<u>\$ 2,501,134</u>	<u>\$ 2,501,134</u>	28 days

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the Village's investment in the Government Operating Money Market Fund was rated AAA by Moody's.

Village of Spring Lake
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Interest rate risk

The Village has not adopted a policy that indicates how the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighed average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Village has not adopted a policy that indicates how the Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash, and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

The cash and cash equivalents and investments referred to above have been reported in the cash and cash equivalents or cash and cash equivalents - restricted captions in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2006:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 1,376,812	\$ 2,018,151	\$ 3,394,963
Cash and cash equivalents - restricted	<u>6,625</u>	<u>-</u>	<u>6,625</u>
	<u>\$ 1,383,437</u>	<u>\$ 2,018,151</u>	<u>\$ 3,401,588</u>

NOTE C: POOLING OF CASH

The Village's balance sheet and statement of net assets reflect cash in certain funds/activities with a negative balance. These amounts do not represent actual bank overdrafts; rather, they merely reflect that specific funds have disbursed amounts from the Village's common checking account in excess of the amount recorded as an asset. In total, the bank account has a positive balance.

Cash disbursed in excess of amounts recorded as assets as of June 30, 2006, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Nonpooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
Water Fund	\$(20,643)	\$ 200	\$(20,443)

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Village of Spring Lake

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: INTERFUND TRANSFERS - CONTINUED

Transfers to General Fund from:	
Nonmajor governmental funds	\$ 26,000
Sewer Fund	6,000
Water Fund	<u>6,500</u>
	<u>\$ 38,500</u>
Transfers to Police Department Fund from:	
General Fund	<u>\$ 452,008</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 11,000
Major Street Fund	52,971
Nonmajor governmental funds	30,839
Sewer Fund	1,000
Water Fund	<u>70,623</u>
	<u>\$ 166,433</u>

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,006,671	\$ 21,000	\$ -	\$ 2,027,671
Capital assets being depreciated				
Land improvements	940,425	48,940	-	989,365
Buildings and Improvements	2,393,700	36,926	-	2,430,626
Machinery and equipment	278,153	27,185	(25,620)	279,718
Vehicles	282,946	52,036	(24,106)	310,876
Infrastructure	<u>6,130,704</u>	<u>-</u>	<u>-</u>	<u>6,130,704</u>
Total capital assets being depreciated	10,025,928	165,087	(49,726)	10,141,289
Less accumulated depreciation				
Land improvements	(292,673)	(42,620)	-	(335,293)
Buildings and improvements	(336,808)	(57,046)	-	(393,854)
Machinery and equipment	(96,365)	(32,372)	25,620	(103,117)
Vehicles	(126,872)	(64,108)	24,106	(166,874)
Infrastructure	<u>(5,351,791)</u>	<u>(48,170)</u>	<u>-</u>	<u>(5,399,961)</u>
Total accumulated depreciation	<u>(6,204,509)</u>	<u>(244,316)</u>	<u>49,726</u>	<u>(6,399,099)</u>
Net capital assets being depreciated	<u>3,821,419</u>	<u>(79,229)</u>	<u>-0-</u>	<u>3,742,190</u>
Total Net Capital Assets	<u>\$ 5,828,090</u>	<u>\$ (58,229)</u>	<u>\$ -0-</u>	<u>\$ 5,769,861</u>

Village of Spring Lake

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE E: CAPITAL ASSETS - CONTINUED

Depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

General government	\$ 114,742
Public safety	30,859
Public works	56,244
Recreation and cultural	<u>42,471</u>

Total depreciation expense \$ 244,316

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Business-type activities				
Capital assets not being depreciated				
Land	\$ 8,092	\$ -	\$ -	\$ 8,092
Capital assets being depreciated				
Buildings and improvements	4,313,433	3,452	-	4,316,885
Mains	1,981,282	-	-	1,981,282
Machinery and equipment	<u>557,189</u>	<u>-</u>	<u>-</u>	<u>557,189</u>
Total capital assets being depreciated	6,851,904	3,452	-0-	6,855,356
Less accumulated depreciation				
Buildings and improvements	(1,378,510)	(86,000)	-	(1,464,510)
Mains	(507,182)	(46,986)	-	(554,168)
Machinery and equipment	<u>(257,301)</u>	<u>(28,234)</u>	<u>-</u>	<u>(285,535)</u>
Total accumulated depreciation	<u>(2,142,993)</u>	<u>(161,220)</u>	<u>-0-</u>	<u>(2,304,213)</u>
Net capital assets being depreciated	<u>4,708,911</u>	<u>(157,768)</u>	<u>-0-</u>	<u>4,551,143</u>
Total Net Capital Assets	<u>\$ 4,717,003</u>	<u>\$ (157,768)</u>	<u>\$ -0-</u>	<u>\$ 4,559,235</u>

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
Installment Loan	\$ 209,500	\$ -	\$ -	\$ 209,500	\$ -
Lake Pointe Redevelopment Loan	-	260,000	-	260,000	-
Mill Point Station Loan	-	57,672	-	57,672	-
1998 NOWS Bonds	730,240	-	93,888	636,352	133,008
2003 G.O. Capital Improvement Bonds	1,435,000	-	10,000	1,425,000	30,000
2000 Street Construction Bonds	370,000	-	20,000	350,000	25,000
Compensated absences	<u>6,692</u>	<u>670</u>	<u>-</u>	<u>7,362</u>	<u>5,521</u>
Total governmental activities	2,751,432	318,342	123,888	2,945,886	193,529

Village of Spring Lake

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE F: LONG-TERM DEBT - CONTINUED

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
PRIMARY GOVERNMENT - CONTINUED					
Business-type Activities					
1989 NOWS Bonds	\$ 277,548	\$ -	\$ 46,716	\$ 230,832	\$ 50,838
1989 Refunding Bonds	257,176	-	23,188	233,988	24,242
NOWS Plant Refunding Bonds	233,293	-	49,306	183,987	47,937
2002 Water Supply Bonds	269,576	-	7,943	261,633	8,936
2005 NOWS Bonds	<u>90,259</u>	<u>-</u>	<u>-</u>	<u>90,259</u>	<u>-</u>
Total business-type activities	<u>1,127,852</u>	<u>-0-</u>	<u>127,153</u>	<u>1,000,699</u>	<u>131,953</u>
TOTAL REPORTING ENTITY	<u>\$ 3,879,284</u>	<u>\$ 318,342</u>	<u>\$ 251,041</u>	<u>\$ 3,946,585</u>	<u>\$ 325,482</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

Installment Loans

\$209,500 Installment Loan dated October 26, 2005, due in an installment of \$209,500 on July 1, 2007 with interest at 5.83 percent payable semi-annually. \$ 209,500

\$260,000 Lake Point Redevelopment Loan, due in annual installments ranging from \$21,366 to \$26,045 with interest of 2.00 percent payable semi-annually beginning on August 26, 2010. 260,000

\$170,000 Mill Point Station Loan, (only \$57,672 drawn to date), with principal and interest payments of 2.00 percent payable semi-annually beginning 5 years after the loan is fully drawn. 57,672

\$ 527,172

General Obligation Bonds

\$4,555,000 1998 NOWS Bonds, dated August 19, 1998, due in annual installments ranging from \$122,576 to \$133,008 through 2011, with interest ranging from 4.5 to 4.7 percent, payable semi-annually. \$ 636,352

\$1,445,000 2003 General Obligation Capital Improvement Bonds, dated April 1, 2003, due in installments ranging from \$30,000 to \$515,000 through April 1, 2028, with interest at 2.5 to 4.75 percent, payable semi-annually. 1,425,000

\$450,000 2000 Street Construction Bonds dated April 12, 2000, due in annual installments ranging from \$25,000 to \$55,000 through October 1, 2014, with interest ranging from 5.00 to 5.40 percent, payable semi-annually. 350,000

\$2,035,000 1989 Northwest Ottawa Water System Bonds, (Village share \$428,978) Village share due in annual installments ranging from \$50,838 to \$65,265 through 2010, with interest ranging from 6.50 to 9.50 percent, payable monthly through rates. 230,832

Village of Spring Lake

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE F: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

General Obligation Bonds - continued

\$4,980,000 1989 Northwest Ottawa Water System Refunding Bonds, (Village share \$684,252) Village share due in annual installments ranging from \$24,242 to \$26,350 through 2015, with interest ranging from 6.80 to 7.60 percent, payable semi-annually.	\$ 233,988
\$8,380,000 1986 Northwest Ottawa Water System Plant Refunding Bonds, (Village share \$765,161) Village share due in annual installments ranging from \$43,829 to \$47,937 through 2010, with interest ranging from 5.00 to 7.40 percent, payable monthly through rates.	183,987
\$2,845,000 2002 Water Supply Bonds (Village share \$282,483), dated May 1, 2001, Village share due in annual installments ranging from \$8,936 to \$29,787 through May 1, 2021, with interest ranging from 4.625 to 5.200 percent, payable semi-annually.	261,633
\$990,000 2005 Northwest Ottawa Water System Bonds (Village share \$90,259) dated May 26, 2005, Village share due in annual installments ranging from \$4,559 to \$10,029 through May 1, 2020, with interest ranging from 3.050 to 4.250 percent, payable semi-annually.	<u>90,259</u>
	<u>\$ 3,412,051</u>

Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused vacation. The dollar amounts of these vested rights, including related payroll taxes, have been recorded in the government-wide financial statements. They amount to approximately \$7,362 at June 30, 2006.

Annual Requirements for Bonded Debt and Installment Loans

The annual requirement to pay the debt principal and interest outstanding for the following bonds and loan are as follows:

Primary Government

Year Ending June 30,	<u>General Obligation Bonds</u>		<u>Installment Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 319,961	\$ 166,027	\$ -	\$ -
2008	335,407	149,172	209,500	12,383
2009	339,197	131,627	-	-
2010	347,557	113,759	26,045	-
2011	242,304	95,107	21,366	4,679
2012-2016	586,010	378,919	113,415	16,812
2017-2021	456,615	253,511	99,174	5,007
2022-2026	500,000	142,989	-	-
2027-2028	<u>285,000</u>	<u>20,900</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,412,051</u>	<u>\$ 1,452,011</u>	<u>\$ 469,500</u>	<u>\$ 38,881</u>

The \$57,672 related to the Mill Point Station Loan is not included in the above schedule because the bonds have not been fully drawn down and as a result the maturity schedule is unknown at June 30, 2006.

Village of Spring Lake

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE F: LONG-TERM DEBT - CONTINUED

The Ottawa County Water Supply Bonds (Village of Spring Lake System) were issued pursuant to the provisions of Act 342, Public Acts of Michigan, 1939 as amended, and pursuant to a resolution adopted by the Board of Commissioner of the County of Ottawa for the purpose of paying the cost of constructing water system improvements to service the Village. Ottawa County and the Village have entered into a contract in which the Village has agreed to pay the County for the principal and interest on the bonds as they become due and payable. Current debt service payments are funded by rates and charges for the use of the system and by ad valorem taxes.

NOTE G: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balances are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the various reserved fund balances as of June 30, 2006:

Fund Balances

General Fund	
Reserved for prepaids	\$ <u>1,141</u>
Police Department Fund	
Reserve for prepaids	\$ <u>1,141</u>
Nonmajor governmental funds	
Reserved for debt service	\$ <u>125,662</u>

NOTE H: RETIREMENT PLAN

General Village Employees (excluding police department)

The Village participates in a 401(a) qualified retirement program covering qualified employees, to which the Village is required to contribute 5% of the employee's gross wages. Each participating employee is required to contribute a minimum of 1%, but no more than 10%, of gross wages. Total contributions by the Village for the year ended June 30, 2006 were \$13,240.

The Village also participates in a 457 qualified retirement plan covering the Village Manager, to which the Village is required to contribute 10% of the Manager's gross wages. Total contributions by the Village for the year ended June 30, 2006 were \$7,378.

Police Department

The Police Department participates in a 401(a) qualified retirement program covering qualified employees, to which the Village is required to contribute 4% of the employee's gross wages. Each participating employee is required to contribute a minimum of 1%, but no more than 10%, of gross wages. Total contributions by the Village for the year ended June 30, 2006 were \$17,936.

Village of Spring Lake

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE H: RETIREMENT PLAN - CONTINUED

Police Department - continued

Plan Description

The Village police department joined in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the police department. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Village's competitive bargaining units, and as of the December 31, 2005 valuation required contributions from the Village of 7.2% of gross wages for the police union, police sergeants, and police chief.

Annual Pension Cost

For year ended June 30, 2006 the Village's annual pension cost of \$33,289 for the plan was equal to the Village's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty years.

Three (3) year trend information

	Year Ended <u>December 31, 2005</u>
Actuarial value of assets	\$ 991,741
Actuarial accrued liability (AAL) (entry age)	1,347,410
Unfunded AAL	355,669
Funded ratio	74 %
Covered payroll	430,530
UAAL as a percentage of covered payroll	83 %
	Year Ended <u>June 30, 2006</u>
Annual pension cost	\$ 33,289
Percentage of APC contributed	100 %
Net pension obligation	-

This trend information was obtained from the MERS actuarial reports as of December 31, 2005.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE I: POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note H, the Village provides post-employment health care benefits to all of its retired employees who meet eligibility requirements. The Village paid the health care premium for three (3) retirees during the fiscal year. During the year, approximately \$13,452 was paid for post retirement health care.

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2010.

NOTE J: RISK MANAGEMENT

The Village participates in a State pool, the Michigan Municipal Liability and Property Pool, with other municipalities for property, liability, crime and automobile. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

The Village also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

NOTE K: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2006:

PRIMARY GOVERNMENT	
Governmental Activities	
Debt service	\$ 92,542
Public safety	103,008
Streets	<u>263,148</u>
	<u>\$ 458,698</u>

NOTE L: FLEXIBLE BENEFITS PLAN

In July 2005, the Village implemented flexible benefit cafeteria plan established under Section 125 of the Internal Revenue Code. The plans are available to all full time or part time employees who work at least 20 hours per week.

The plan permits employees, who must pay a portion of the health insurance, to do so through a pretax compensation reduction. The plan also permits employees to reduce their compensation and apply it to medical or dependent care expenses.

The plan is administered by the Village of Spring Lake.

Village of Spring Lake

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE M: RESTATED NET ASSETS

Beginning net assets for governmental activities were restated to correctly remove the net assets of the discretely presented component units as required by GASB Statement No. 14 (as amended by GASB Statement No. 39) and MCGAA Statement No. 4, and to properly allocate the net assets of the internal service funds, as required by GASB Statement No. 34, para.62, on the Statement of Net Assets as of June 30, 2006. Net assets for governmental activities were decreased by \$413,387 from \$4,705,432 to \$4,292,045.

Beginning net assets for business-type activities were restated to correctly remove the allocation of the net assets of the internal service funds, as required by GASB Statement No. 34, para.62, on the Statement of Net Assets as of June 30, 2006. Net assets for business-type activities were decreased by \$15,336 from \$3,669,467 to \$3,654,131.

Beginning net assets for component units were restated to correctly remove them from governmental activities and correctly present them as discretely presented component units, as required by GASB Statement No. 14 (as amended by GASB Statement No. 39) and MCGAA Statement No. 4, on the Statement of Net Assets as of June 30, 2006. Net assets for component units were increased by \$428,723.

NOTE N: CONTINGENT LIABILITIES

There are various legal actions pending against the Village that normally occur as a result of government operations. Due to the inconclusive nature of many of the actions, it is not possible for Corporation Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. These actions, for which a reasonable estimate can be determined of the potential liability, if any, are considered by Village management and legal counsel to be immaterial.

As disclosed in Note A #3, the Village is a member of both the Grand Haven-Spring Lake Sewer authority and the Northwest Ottawa Water Treatment Plant. The Village, along with the other participating municipalities, has pledged their full faith and credit for repayment of the outstanding debt of these two (2) governmental entities. For all debt, the amount the Village is required to contribute to these entities for repayment of the debt is not a fixed amount, but is based on the volume of sewage treated and water purchased and is included in the rate charged by these entities. The Village is still liable for the share of the debts even if they do not collect enough fees in the future to cover these payments.

NOTE O: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional level.

During the year ended June 30, 2006, the Village incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Village Council	\$ 9,706	\$ 10,290	\$ 584
Village Manager	86,415	89,257	2,842
Clerk-Treasurer	87,587	92,217	4,630
Village hall and grounds	51,527	54,901	3,374

Village of Spring Lake
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE O: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund - continued			
General government - continued			
Attorney	\$ 21,800	\$ 23,137	\$ 1,337
Barber Street School	19,735	21,621	1,886
Public safety			
Fire department	12,700	13,146	446
Public works			
Public works	158,076	158,155	79
Street lighting	45,000	49,040	4,040
Community and economic development			
Redevelopment projects	-	317,672	317,672
Recreation and cultural			
Park maintenance	136,397	138,009	1,612
Police Department Fund			
Public safety	899,417	902,426	3,009

REQUIRED SUPPLEMENTARY INFORMATION

Village of Spring Lake

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Property taxes	\$ 822,960	\$ 801,268	\$ 787,352	\$ (13,916)
Penalties and interest	5,000	5,000	6,297	1,297
Administration fees	11,597	11,597	11,873	276
Total taxes	839,557	817,865	805,522	(12,343)
Licenses and permits	3,450	3,450	3,757	307
Intergovernmental				
State	220,320	211,320	208,490	(2,830)
Local	-	27,000	30,750	3,750
Total intergovernmental	220,320	238,320	239,240	920
Charges for services				
Cable TV franchise fees	28,000	28,000	30,559	2,559
Cellular tower usage	12,000	12,000	12,000	-0-
Zoning fees	4,000	4,000	2,530	(1,470)
Housing inspection fees	2,000	2,000	3,075	1,075
Launch ramp fees	9,000	6,500	6,257	(243)
Other charges for services	1,000	3,000	4,271	1,271
Total charges for services	56,000	55,500	58,692	3,192
Fines and forfeits	18,300	18,300	23,223	4,923
Interest and rents				
Interest	4,500	4,500	9,089	4,589
Rentals	79,900	77,600	90,046	12,446
Total interest and rents	84,400	82,100	99,135	17,035
Other				
Refunds and reimbursements	10,000	10,000	12,625	2,625
Other	1,875	1,875	10,298	8,423
Total other	11,875	11,875	22,923	11,048
TOTAL REVENUES	1,233,902	1,227,410	1,252,492	25,082
EXPENDITURES				
General government				
Village Council	9,706	9,706	10,290	(584)
Village Manager	83,915	86,415	89,257	(2,842)
Clerk-Treasurer	84,057	87,587	92,217	(4,630)
Elections	1,250	1,774	1,774	-0-

Village of Spring Lake

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES - CONTINUED				
General government - continued				
Village hall and grounds	\$ 49,301	\$ 51,527	\$ 54,901	\$ (3,374)
Attorney	16,800	21,800	23,137	(1,337)
Barber Street School	20,635	19,735	21,621	(1,886)
Total general government	265,664	278,544	293,197	(14,653)
Public safety				
Fire department	12,700	12,700	13,146	(446)
Public works				
Public works	134,576	158,076	158,155	(79)
Maintenance	10,500	10,500	8,922	1,578
Street lighting	45,000	45,000	49,040	(4,040)
Total public works	190,076	213,576	216,117	(2,541)
Community and economic development				
Planning and zoning	41,505	43,505	36,553	6,952
Redevelopment projects	-	-	317,672	(317,672)
Total community and economic development	41,505	43,505	354,225	(310,720)
Recreation and cultural				
Tanglefoot park	32,039	32,701	31,470	1,231
Park maintenance	131,397	136,397	138,009	(1,612)
Community promotion	49,252	49,252	41,336	7,916
Recreation department	14,305	14,305	13,219	1,086
Total recreation and cultural	226,993	232,655	224,034	8,621
Other	2,800	2,800	2,586	214
TOTAL EXPENDITURES	739,738	783,780	1,103,305	(319,525)
EXCESS OF REVENUES OVER EXPENDITURES	494,164	443,630	149,187	(294,443)
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	317,672	317,672
Transfers in	41,500	38,500	38,500	-0-
Transfers out	(478,908)	(463,008)	(463,008)	-0-
TOTAL OTHER FINANCING SOURCES (USES)	(437,408)	(424,508)	(106,836)	317,672
NET CHANGE IN FUND BALANCE	56,756	19,122	42,351	23,229
Fund balance, beginning of year	269,937	269,937	269,937	-0-
Fund balance, end of year	\$ 326,693	\$ 289,059	\$ 312,288	\$ 23,229

Village of Spring Lake

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 79,254	\$ 77,164	\$ 75,769	\$ (1,395)
Intergovernmental - State	149,500	149,500	159,346	9,846
Interest	1,000	1,000	7,308	6,308
TOTAL REVENUES	229,754	227,664	242,423	14,759
EXPENDITURES				
Current				
Public works	121,855	125,391	115,780	9,611
Capital outlay	26,010	26,010	20,261	5,749
TOTAL EXPENDITURES	147,865	151,401	136,041	15,360
EXCESS OF REVENUES OVER EXPENDITURES	81,889	76,263	106,382	30,119
OTHER FINANCING USES				
Transfers out	(51,000)	(52,971)	(52,971)	-0-
NET CHANGE IN FUND BALANCE	30,889	23,292	53,411	30,119
Fund balance, beginning of year	153,006	153,006	153,006	-0-
Fund balance, end of year	<u>\$ 183,895</u>	<u>\$ 176,298</u>	<u>\$ 206,417</u>	<u>\$ 30,119</u>

Village of Spring Lake
Police Department Fund
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental				
State	\$ 3,000	\$ 4,693	\$ 4,749	\$ 56
Local	414,937	400,837	400,840	3
Interest and rents	-	-	4,071	4,071
Other	-	1,000	1,700	700
TOTAL REVENUES	417,937	406,530	411,360	4,830
EXPENDITURES				
Public safety	928,217	899,417	902,426	(3,009)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(510,280)	(492,887)	(491,066)	1,821
OTHER FINANCING SOURCES				
Transfers in	467,908	452,008	452,008	-0-
NET CHANGE IN FUND BALANCE	(42,372)	(40,879)	(39,058)	1,821
Fund balance, beginning of year	142,066	142,066	142,066	-0-
Fund balance, end of year	<u>\$ 99,694</u>	<u>\$ 101,187</u>	<u>\$ 103,008</u>	<u>\$ 1,821</u>

OTHER SUPPLEMENTARY INFORMATION

Village of Spring Lake
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
June 30, 2006

	Special Revenue			
	Local Street	Public Improvement	Historic Commission	Building Department
ASSETS				
Cash and cash equivalents	\$ 56,214	\$ 193,790	\$ 4,793	\$ 27,149
Accounts receivable	162	559	14	78
Due from other governmental units				
State	7,201	-	-	-
TOTAL ASSETS	\$ 63,577	\$ 194,349	\$ 4,807	\$ 27,227
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 6,366	\$ 4,687	\$ 448	\$ -
Accrued liabilities	480	-	-	255
Deferred revenue	-	700	-	-
TOTAL LIABILITIES	6,846	5,387	448	255
FUND BALANCES				
Reserved for debt service	-	-	-	-
Unreserved				
Undesignated, reported in:				
Special revenue funds	56,731	188,962	4,359	26,972
TOTAL FUND BALANCES	56,731	188,962	4,359	26,972
TOTAL LIABILITIES AND FUND BALANCES	\$ 63,577	\$ 194,349	\$ 4,807	\$ 27,227

	Debt Service		Capital Projects	Total
2000 Street	Northwest Ottawa Water Supply	2003 Village Hall	2003 Village Hall	Nonmajor Governmental Funds
\$ 54,358	\$ 26,488	\$ 48,225	\$ -	\$ 411,017
157	76	92	-	1,138
-	-	-	-	7,201
<u>\$ 54,515</u>	<u>\$ 26,564</u>	<u>\$ 48,317</u>	<u>\$ -0-</u>	<u>\$ 419,356</u>
\$ -	\$ -	\$ 3,734	\$ -	\$ 15,235
-	-	-	-	735
-	-	-	-	700
-0-	-0-	3,734	-0-	16,670
54,515	26,564	44,583	-	125,662
-	-	-	-	277,024
<u>54,515</u>	<u>26,564</u>	<u>44,583</u>	<u>-0-</u>	<u>402,686</u>
<u>\$ 54,515</u>	<u>\$ 26,564</u>	<u>\$ 48,317</u>	<u>\$ -0-</u>	<u>\$ 419,356</u>

Village of Spring Lake

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	Special Revenue			
	Local Street	Public Improvement	Historic Commission	Building Department
REVENUES				
Taxes	\$ -	\$ 55,554	\$ -	\$ -
Licenses and permits	-	-	-	94,089
Intergovernmental	52,160	8,800	-	-
Interest and rents	2,053	7,023	177	1,012
Other	-	11,222	1,673	-
TOTAL REVENUES	54,213	82,599	1,850	95,101
EXPENDITURES				
Current				
Public safety	-	-	-	50,736
Public works	98,029	86,983	-	-
Recreation and cultural	-	-	1,409	-
Debt service				
Principal	-	-	-	-
Interest	-	10,288	-	-
Capital outlay	17,042	-	-	-
TOTAL EXPENDITURES	115,071	97,271	1,409	50,736
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(60,858)	(14,672)	441	44,365
OTHER FINANCING SOURCES (USES)				
Transfers in	62,000	26,810	-	-
Transfers out	-	(17,000)	-	(26,000)
TOTAL OTHER FINANCING SOURCES (USES)	62,000	9,810	-0-	(26,000)
NET CHANGE IN FUND BALANCES	1,142	(4,862)	441	18,365
Fund balances, beginning of year	55,589	193,824	3,918	8,607
Fund balances, end of year	\$ 56,731	\$ 188,962	\$ 4,359	\$ 26,972

	Debt Service		Capital Projects	
2000 Street	Northwest Ottawa Water Supply	2003 Village Hall	2003 Village Hall	Total Nonmajor Governmental Funds
\$ 24,912	\$ -	\$ 59,754	\$ -	\$ 140,220
-	-	-	-	94,089
-	35,000	-	-	95,960
1,966	927	30,992	-	44,150
-	-	-	-	12,895
26,878	35,927	90,746	-0-	387,314
-	-	-	-	50,736
-	-	-	-	185,012
-	-	-	-	1,409
20,000	93,888	10,000	-	123,888
18,705	31,213	64,256	-	124,462
-	-	-	19,633	36,675
38,705	125,101	74,256	19,633	522,182
(11,827)	(89,174)	16,490	(19,633)	(134,868)
8,000	69,623	-	-	166,433
-	-	-	(13,839)	(56,839)
8,000	69,623	-0-	(13,839)	109,594
(3,827)	(19,551)	16,490	(33,472)	(25,274)
58,342	46,115	28,093	33,472	427,960
\$ 54,515	\$ 26,564	\$ 44,583	\$ -0-	\$ 402,686

Village of Spring Lake

Internal Service Funds

COMBINING STATEMENT OF NET ASSETS

June 30, 2006

	Central Equipment	Police Equipment	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 264,504	\$ 36,443	\$ 300,947
Accounts receivable	763	105	868
Total current assets	265,267	36,548	301,815
Noncurrent assets			
Capital assets, net of accumulated depreciation	227,954	28,931	256,885
TOTAL ASSETS	493,221	65,479	558,700
LIABILITIES			
Current liabilities			
Accounts payable	1,403	1,250	2,653
Accrued liabilities	175	-	175
TOTAL LIABILITIES	1,578	1,250	2,828
NET ASSETS			
Invested in capital assets	227,954	28,931	256,885
Unrestricted	263,689	35,298	298,987
TOTAL NET ASSETS	\$ 491,643	\$ 64,229	\$ 555,872

Village of Spring Lake

Internal Service Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS

Year Ended June 30, 2006

	Central Equipment	Police Equipment	Total
OPERATING REVENUES			
Charges for services	\$ 173,374	\$ 60,591	\$ 233,965
Other	-	4,837	4,837
TOTAL OPERATING REVENUES	173,374	65,428	238,802
OPERATING EXPENSES			
Salaries and wages	9,377	-	9,377
Benefits	1,399	-	1,399
Supplies	14,615	18,967	33,582
Contracted services	816	486	1,302
Repairs and maintenance	23,107	13,591	36,698
Insurance	10,756	5,241	15,997
Depreciation	62,280	30,859	93,139
Other	19,959	6,825	26,784
TOTAL OPERATING EXPENSES	142,309	75,969	218,278
OPERATING INCOME (LOSS)	31,065	(10,541)	20,524
NONOPERATING REVENUES			
Interest earned	9,686	1,323	11,009
NET INCOME (LOSS)	40,751	(9,218)	31,533
Net assets, beginning of year	450,892	73,447	524,339
Net assets, end of year	\$ 491,643	\$ 64,229	\$ 555,872

Village of Spring Lake

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

	Central Equipment	Police Equipment	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from interfund services	\$ 172,999	\$ 60,551	\$ 233,550
Cash received from others	-	4,837	4,837
Cash paid to employees and benefits	(9,341)	-	(9,341)
Cash paid to employees benefits	(1,399)	-	(1,399)
Cash paid to vendors	(69,138)	(46,183)	(115,321)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	93,121	19,205	112,326
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital purchases	(58,311)	(20,910)	(79,221)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	9,686	1,323	11,009
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	44,496	(382)	44,114
Cash and cash equivalents, beginning of year	220,008	36,825	256,833
Cash and cash equivalents, end of year	<u>\$ 264,504</u>	<u>\$ 36,443</u>	<u>\$ 300,947</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 31,065	\$ (10,541)	\$ 20,524
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	62,280	30,859	93,139
(Increase) in accounts receivable	(375)	(40)	(415)
Increase (decrease) in accounts payable	115	(1,073)	(958)
Increase in accrued liabilities	36	-	36
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 93,121</u>	<u>\$ 19,205</u>	<u>\$ 112,326</u>

Village of Spring Lake

Component Unit Funds

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2006

	Special Revenue
ASSETS	
Cash and cash equivalents	\$ 4,871
Accounts receivable	14
TOTAL ASSETS	<u>\$ 4,885</u>
LIABILITIES AND FUND BALANCE	
Accounts payable	\$ 104
FUND BALANCE	
Unreserved	
Undesignated	<u>4,781</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 4,885</u>

Note: Reconciliation of the component unit governmental fund balance sheet to the statement of net assets for this component unit is not required as the component unit's fund balance was equal to the component unit's net assets as of June 30, 2006.

Village of Spring Lake

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2006

	<u>Special Revenue</u>
REVENUES	
Interest and rents	<u>\$ 176</u>
EXPENDITURES	
Current	
Community and economic development	<u>870</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(694)
Fund balance, beginning of year	<u>5,475</u>
Fund balance, end of year	<u><u>\$ 4,781</u></u>

Note: Reconciliation of the statement of revenues, expenditures and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended June 30, 2006.

Village of Spring Lake

Component Unit Funds

BALANCE SHEET - TAX INCREMENT FINANCE AUTHORITY

June 30, 2006

	Special Revenue
ASSETS	
Cash and cash equivalents	\$ 2,013,280
Accounts receivable	5,808
Due from other governmental units	<u>3,820</u>
TOTAL ASSETS	<u>\$ 2,022,908</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 81,775
Due to other governmental units	<u>1,276,115</u>
TOTAL LIABILITIES	1,357,890
FUND BALANCE	
Unreserved	
Undesignated	<u>665,018</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 746,793</u>

Village of Spring Lake

Component Unit Funds

RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - TAX INCREMENT FINANCE AUTHORITY

June 30, 2006

Total fund balance - governmental fund -	\$ 665,018
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Amounts reported for the governmental activities in the statement of net assets are different because:

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Due to other governmental units	<u>(317,672)</u>
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Net assets of governmental activities	<u>\$ 347,346</u>
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Village of Spring Lake

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - TAX INCREMENT FINANCE AUTHORITY

Year Ended June 30, 2006

	Special Revenue
REVENUES	
Taxes	\$ 964,007
Intergovernmental	
Federal/state	395,147
Local	469,763
Interest and rents	<u>75,597</u>
TOTAL REVENUES	1,904,514
EXPENDITURES	
Current	
Recreation and cultural	7,403
Community and economic development	<u>1,655,341</u>
TOTAL EXPENDITURES	<u>1,662,744</u>
EXCESS OF REVENUES OVER EXPENDITURES	241,770
Fund balance, beginning of year	<u>423,248</u>
Fund balance, end of year	<u><u>\$ 665,018</u></u>

Village of Spring Lake

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES - TAX INCREMENT FINANCE AUTHORITY

Year Ended June 30, 2006

Net change in fund balance - governmental fund **\$ 241,770**

Amounts reported for governmental activities in the statement of activities are different because:

Certain long-term amounts received from other governmental units (primary government) are reported as intergovernmental revenues in governmental funds, but the amounts result in an increase in noncurrent liabilities in the statement of net assets. In the current year, these amounts consist of:

Intergovernmental revenues from the primary government	<u>(317,672)</u>
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Change in net assets of governmental activities	<u><u>\$ (75,902)</u></u>
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Village of Spring Lake
SCHEDULE OF BONDED INDEBTEDNESS
June 30, 2006

Fiscal year ending June 30,	Governmental			
	Installment Loan		Lake Pointe Redevelopment Loan	
	Principal	Interest	Principal	Interest
2007	\$ -	\$ -	\$ -	\$ -
2008	209,500	12,383	-	-
2009	-	-	-	-
2010	-	-	26,045	-
2011	-	-	21,366	4,679
2012	-	-	21,794	4,252
2013	-	-	22,229	3,816
2014	-	-	22,674	3,371
2015	-	-	23,128	2,918
2016	-	-	23,590	2,455
2017	-	-	24,062	1,983
2018	-	-	24,543	1,502
2019	-	-	25,034	1,011
2020	-	-	25,535	511
2021	-	-	-	-
2022	-	-	-	-
2023	-	-	-	-
2024	-	-	-	-
2025	-	-	-	-
2026	-	-	-	-
2027	-	-	-	-
2028	-	-	-	-
	<u>\$ 209,500</u>	<u>\$ 12,383</u>	<u>\$ 260,000</u>	<u>\$ 26,498</u>

Activities			
1998 NOWS Bonds		2003 General Obligation Capital Improvement Bonds	
Principal	Interest	Principal	Interest
\$ 133,008	\$ 26,077	\$ 30,000	\$ 63,506
129,096	20,179	35,000	62,681
126,488	14,397	35,000	61,631
125,184	8,640	35,000	60,494
122,576	2,881	35,000	59,269
-	-	35,000	57,956
-	-	35,000	56,600
-	-	30,000	55,200
-	-	35,000	53,850
-	-	40,000	52,275
-	-	45,000	50,475
-	-	50,000	48,450
-	-	60,000	46,200
-	-	65,000	43,425
-	-	75,000	40,419
-	-	80,000	36,950
-	-	90,000	33,250
-	-	100,000	29,088
-	-	110,000	24,464
-	-	120,000	19,237
-	-	130,000	13,537
-	-	155,000	7,363
<u>\$ 636,352</u>	<u>\$ 72,174</u>	<u>\$ 1,425,000</u>	<u>\$ 976,320</u>

Village of Spring Lake

SCHEDULE OF BONDED INDEBTEDNESS - CONTINUED

June 30, 2006

Fiscal year ending June 30,	Governmental activities - continued		Business-type	
	2000 Street		1989 NOWS Bonds	
	Construction Bonds			
	Principal	Interest	Principal	Interest
2007	\$ 25,000	\$ 17,585	\$ 50,838	\$ 15,586
2008	30,000	16,210	54,960	12,002
2009	30,000	14,710	59,769	8,127
2010	35,000	13,085	65,265	4,242
2011	40,000	11,170	-	-
2012	40,000	9,080	-	-
2013	45,000	15,918	-	-
2014	50,000	4,308	-	-
2015	55,000	1,485	-	-
2016	-	-	-	-
2017	-	-	-	-
2018	-	-	-	-
2019	-	-	-	-
2020	-	-	-	-
2021	-	-	-	-
2022	-	-	-	-
2023	-	-	-	-
2024	-	-	-	-
2025	-	-	-	-
2026	-	-	-	-
2027	-	-	-	-
2028	-	-	-	-
	<u>\$ 350,000</u>	<u>\$ 103,551</u>	<u>\$ 230,832</u>	<u>\$ 39,957</u>

Activities			
1989 Refunding Bonds		NOWS Plant Refunding Bonds	
Principal	Interest	Principal	Interest
\$ 24,242	\$ 13,313	\$ 47,937	\$ 13,520
25,296	12,052	46,567	10,021
26,350	10,711	45,654	6,622
26,350	9,288	43,829	3,243
26,350	7,740	-	-
26,350	6,192	-	-
26,350	4,644	-	-
26,350	3,096	-	-
26,350	1,548	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>\$ 233,988</u>	<u>\$ 68,584</u>	<u>\$ 183,987</u>	<u>\$ 33,406</u>

Village of Spring Lake

SCHEDULE OF BONDED INDEBTEDNESS - CONTINUED

June 30, 2006

Fiscal year ending June 30,	Business-type activities - continued			
	2005 NOWS Bonds		2002 Water Supply Bonds	
	Principal	Interest	Principal	Interest
2007	\$ -	\$ 3,453	\$ 8,936	\$ 12,987
2008	4,559	3,453	9,929	12,574
2009	5,014	3,314	10,922	12,115
2010	5,014	3,157	11,915	11,610
2011	5,470	2,997	12,908	11,050
2012	5,926	2,811	13,901	10,443
2013	6,382	2,603	14,894	9,790
2014	6,838	2,370	15,887	9,075
2015	7,294	2,110	17,376	8,304
2016	7,750	1,826	19,362	7,435
2017	8,205	1,516	20,851	6,467
2018	8,661	1,177	22,837	5,404
2019	9,117	814	24,823	4,234
2020	10,029	426	27,305	2,955
2021	-	-	29,787	1,549
2022	-	-	-	-
2023	-	-	-	-
2024	-	-	-	-
2025	-	-	-	-
2026	-	-	-	-
2027	-	-	-	-
2028	-	-	-	-
	<u>\$ 90,259</u>	<u>\$ 32,027</u>	<u>\$ 261,633</u>	<u>\$ 125,992</u>

Total Requirements			
Principal		Interest	
\$	319,961	\$	166,027
	544,907		161,555
	339,197		131,627
	373,602		113,759
	263,670		99,786
	142,971		90,734
	149,855		93,371
	151,749		77,420
	164,148		70,215
	90,702		63,991
	98,118		60,441
	106,041		56,533
	118,974		52,259
	127,869		47,317
	104,787		41,968
	80,000		36,950
	90,000		33,250
	100,000		29,088
	110,000		24,464
	120,000		19,237
	130,000		13,537
	155,000		7,363
<u>\$ 3,881,551</u>		<u>\$ 1,490,892</u>	

Principals

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MANAGEMENT LETTER

To the Honorable President and
Members of the Village Council
Village of Spring Lake
Spring Lake, Michigan

As you know, we have recently completed our audit of the records of the Village of Spring Lake, Michigan as of and for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The Village should establish a dollar threshold to record significant assets purchased.

The Village implemented Governmental Accounting Standards Board Statement 34, which requires that capital assets be recorded and depreciated in a new set of full-accrual basis "government-wide" financial statements. During the implementation of this new reporting model, we noted that the Village does not have a policy in place to specify a dollar threshold to define long-lived assets that would be capitalized and depreciated in the financial statements.

We suggest the Village adopt a capitalization threshold policy that would define assets that are to be included in the financial statements as capital assets. At the Village's option, this policy may be applied retroactively or it may be applied for future purchases only.

2. The Village should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Village may not have sufficient segregation of duties in its accounting structure. Specifically, we noted that the accounts payable process is completed by the Clerk/Treasurer, who has the ability to set up a new vendor, write and sign the checks, and reconcile the bank account. Also, we noted that the completed bank reconciliation was not reviewed or approved at a supervisory level. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.).

While this is a common occurrence in small organizations due to the limited number of employees, the Village should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Village review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Village provide a greater review and supervision of employee functions and procedures. We also suggest that in the future when the Village is adopting new or modifying existing financial policies they consider the issue of fraud, and assure that the policy discusses ways that will prevent, deter, and detect fraud within the area the policy is addressing.

3. The Village should consider adopting additional administrative policies and procedures.

Based on our discussions with management, we noted that the Village has not formally adopted written procedures and policies for certain areas of operation. Documenting specific policies and procedures allows employees to have a clear understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we suggest that the Village develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Accounting policies and procedures manual - We suggest the Village formally document any accounting procedures that are currently in place and supplement this with any policies that may be required to support those procedures. These policies and procedures should include cash receipt and disbursement procedures, payroll procedures, criteria for establishing a fund, specific activities to be accounted for in each fund, any closing procedures necessary for the preparation of monthly/annual financial statements, purchasing, and obtaining competitive bids, etc.
- b. Fraud prevention policy - A policy on fraud prevention should define the scope of the policy and include a definition of actions constituting fraud and the appropriate procedures to follow when reporting fraud or suspicions of fraud.

4. The Village should prepare for implementation of GASB Statement No. 45.

The Governmental Accounting Standards Board has recently issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the Village of Spring Lake the year ended June 30, 2010.

The Village is subject to this new standard in that it pays a percentage of health and dental insurance premiums for certain retirees up to age 65.

We would like the Council to be aware of this upcoming change and also suggest that the Village begin to discuss options for calculating the amount of the liability. The Council has the option of contracting with an actuary to determine the liability and required contribution amount or calculating the liability and required contribution amount using an alternate method described in GASB Statement No. 45.

5. The Council should amend the Village's investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the Village has not amended their investment policy to address the reporting requirements of GASB Statement No. 40.

Deposit and investment resources often represent significant assets of the Village's governmental funds. These resources are necessary for the delivery of the Village's services and programs. GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Village's ability to provide services and meet its obligations as they become due.

We suggest the Council review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Village's financial statements by GASB Statement No. 40.

6. Budgets for all funds should be monitored and amended when necessary.

As noted in the annual financial statements, some of the budgeted activities of the Village exceeded the amounts appropriated. The variances noted were in the General Fund and Police Department Fund.

The Michigan Public Act 621 of 1978, as amended, provides that the Village shall not incur expenditures in excess of the amounts appropriated.

We suggest the Village adopt budgets for all applicable funds and monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated October 12, 2006.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Spring Lake and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 12, 2006